Selected Trade Issues for Mozambique in 2014

[DRAFT BRIEFING PAPER]

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Contents

Illustrations

Figures

Tables

Exhibits

Executive Summary

Integral to Mozambique’s strategy to sustain rapid growth and reduce poverty, domestic and international trade have been the focus of government and donor-supported programs over the past decade. To help Mozambique boost international trade, the public and private sectors must attend consistently to certain matters, not only domestic barriers to trade and investment, but also developments in the World Trade Organization, such as the new Trade Facilitation Agreement (TFA). The domestic reform agenda must also complement regional and international trade commitments—and international commitments can help push through reforms in Mozambique. Trade issues of importance to Mozambique today include the following:

Sustained Focus on Trade. A continued focus on trade can ensure that trade reduces poverty in Mozambique. Economic growth is the most powerful determinant of poverty reduction and openness to trade is strongly associated with growth in developing countries. Mozambique has had high GDP growth rates for many years, but the perception is that poverty is on the rise. Analysis done on mid-2000s, however, showed that poverty is decreasing and that the government met its poverty reduction targets for 2005. In addition, continued growth means the government has more resources—through taxes and royalties—to devote to the social services and infrastructure that also help reduce poverty. Ultimately, by diversifying the economy into more labor-intensive sectors, trade can cause "pro-poor" growth.

Trade Performance. Exports and imports have increased dramatically over the past decade: imports from $1.2 billion (2002) to $8.1 billion (2013) and exports from $682 million (2002) to $3.7 billion (2013). Exports of coal and bananas have been increasing, but other than that, exports remain largely in the usual sectors: aluminum, electricity, shrimp, cashew, natural gas, wood, tobacco and cotton to name a few. When tariffs for SADC fell to zero in 2012, imports surged in Mozambique the same year but have declined in 2013, and also remain in the usual sectors, such as machinery, diesel, automobiles and consumer products and rice.

WTO Trade Facilitation Agreement (TFA). Facilitating trade can boost imports and exports and improve a country’s competitiveness. The TFA presents some opportunities for Mozambique, largely because Mozambique is already implementing trade facilitation initiatives such as a single window. Making commitments in Category A by July 2014 can bring some benefits, such as increased technical assistance for reform implementation. But there are also other areas that Mozambique can focus on in the short-term, such as finalizing the WTO self-assessment, creating working groups and continuing to make trade facilitation reforms. As part of the WTO TFA, pre-shipment inspection for valuation and classification must be eliminated.

Nacala Dry Port. Well-conceived, designed, and run dry ports can expedite trade and reduce costs. CTA should ensure that Nacala's maritime and dry ports are not duplicating tasks, that necessary import/export services are available at the dry port, and that the dry port follows best practices. Nacala's maritime and dry port terminals should be reviewed with regard to the TFA, especially Article 6 (Fees and Clearance).

Scanners. In 2006, the Council of Ministers authorized non-intrusive customs inspections using modern scanning technology, through a concession to a private operator. In general, scanning equipment is desirable but also costly, and needs to be implemented according to international best practice. Where equipment is being used, the imposition of scanning fees to cover this cost is common but not universal. The fees (price structure as well as the categories for which the fees are assessed) for scanning in Mozambique should be reviewed, as per the WTO TFA, with an aim of reducing them.

Nontariff measures. Nontariff measures are policy measures other than ordinary customs tariffs that affect international trade in goods, sometimes raising costs. They include quotas, licenses, technical barriers to trade, sanitary and phytosanitary measures, export restrictions, custom surcharges, financial measures, antidumping measures, and other red tape typical of business environments. As SADC and other tariffs are gradually reduced and eliminated, one would expect prices of imported goods to fall in Mozambique. However, it appears that prices keep rising. This may be due to nontariff barriers.

CTA's* Pelouros *on Trade and Mozambique's Trade Institutions and Processes. To help Mozambique increase its international trade, the public and private sectors must address barriers to trade and investment in a comprehensive and collaborative manner. Public-private sector dialogue on these matters will enable local entrepreneurs and foreign investors to take advantage of opportunities to increase exports and create jobs. Improving the climate for doing business in Mozambique will also help domestic firms become efficient and compete against imports, something that trade data suggest is happening already. To address many other issues, CTAs' *pelouros* on trade should be reinvigorated, a trade-related lobbying agenda should be developed for CTA, and Mozambique's trade institutions and processes should be strengthened to ensure attention to trade issues.

National Trade Strategy. Economic and business environment reforms require high-level endorsement of trade as a part of Mozambique's development strategy, an effective mechanism for coordinating interministerial work on trade policy, public–private partnership, and targeted technical assistance from donors.

1. Introduction

Trade is integral to Mozambique's strategy to sustain rapid growth and reduce poverty. Over the past decade, government and donor-supported programs have focused on international and domestic trade and exports and imports have increased dramatically. Imports increased from $1.2 billion in 2002 to $8.1 billion in 2013, and exports increased from $682 million in 2002 to $3.7 billion in 2013.[1] Clearly, Mozambique is attracting investment in large trade-generating projects and integrating further into regional and international markets. Of course, more needs to be done to translate increased trade into jobs and economic growth.

To help Mozambique expand its international trade, the public and private sectors need to attend consistently to important issues—not only domestic barriers to trade and investment, but also developments in the World Trade Organization (WTO) such as the newly agree Trade Facilitation Agreement (TFA). The domestic reform agenda should complement and support Mozambique's regional and international trade commitments, and international commitments can create pressure to make those reforms.

Public-private dialogue in Mozambique began in the late 1990s and continues in various forms today—the Annual Private Sector Conference organized by the Confederation of Business Associations (CTA), CTA's sector working groups (*pelourous*), the Enhanced Integrated Framework (EIF), and ad-hoc discussions with ministry and private sector counterparts. Dialogue on trade, however, seems to have taken a back seat to improving the business environment, specific policy issues, and the impending resource boom. While taking a back seat is not necessarily bad, these other issues are inherently tied to trade: bureaucracy and red tape reduce the competitiveness of Mozambique's exports and imports; difficulty in obtaining work permits jeopardizes large-scale investment projects; and high-internal costs due to a lack of competition (e.g., in the air transport sector), challenges the development aspirations of provinces such as Pemba.

Addressing trade and business environment issues through public-private sector dialogue will enable domestic entrepreneurs and foreign investors to take advantage of opportunities to increase exports and create jobs on a broad base, which is essential for continued poverty reduction. Improving the climate for doing business will also help domestic firms become more efficient and compete more effectively against imports, something the trade data suggest is already happening: imports surged when tariffs for SADC feel to zero in 2012, but appear to have declined in 2013.

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[1] 2013 data provided by the National Statistics Institute (INE) is preliminary and subject to change when final and revised statistics for 2013 are released in June 2014.

For Mozambique, developing export capacity in non-mega project sectors is imperative, especially as revenue from the impending resource boom threatens to strengthen the currency if not dealt with properly, and as the extractive industries draw workers away from other sectors. Developing export capacity should remain a key focus and supporting institutions like the Institute for Export Promotion (IPEX) can be helpful in expanding nontraditional exports (IPEX has successfully promoted exports of green beans, mango, pineapple, hot peppers and cashew). To develop export capacity, Mozambique will need to continue improving

- The business-enabling environment, to stimulate domestic and foreign investment in labor-intensive sectors;
- Transportation infrastructure and border clearance procedures, to reduce the high transactions costs that render Mozambican products noncompetitive in global markets; and
- Trade and investment policies, trade institutions, technical and analytic skills, and policy coordination, to remove impediments to exports in a coordinated and comprehensive fashion.

This briefing concentrates on six areas affecting Mozambique’s trade: the country’s trade performance over the past five years and through to 2013; the WTO TFA, with attention to preshipment inspection; the Nacala dry port; the use of scanners; nontariff measures; and prospects of a national trade policy and CTA’s role in advancing trade issues.

Solving problems and removing constraints in these areas implies a broad agenda, one that can only be accomplished with full endorsement at high political levels, effective intergovernmental coordination, public–private partnership, and targeted technical assistance. The Presidential election to be held at the end of 2014 presents an opportunity for change.

2. The Case for Free Trade

As was pointed out in Mozambique's Integrated Framework (IF) Diagnostic Trade Integration Study (DTIS) by Nathan Associates, trade liberalization can reduce poverty. Ensuring a continued and committed focus on trade in Mozambique can ensure that trade does in fact reduce poverty. At the same time, focusing on trade and ensuring trade issues are in Poverty Reduction Strategy Papers (PRSPs) can continue past efforts at mainstreaming trade. This view is based on three findings from an extensive body of empirical research on the determinants of economic growth and poverty dynamics.[2]

First, economic growth is the most powerful determinant of poverty reduction. For a poor country like Mozambique, any substantial reduction in poverty requires a large increase in productive capacity. Sustained rapid growth reduces poverty. Indeed, the incidence of poverty almost always declines when per capita income increases by at least 2 percent per year, and almost never declines when per capita income fails to grow. Empirical studies find a one-to-one relationship, on average, between the growth of per capita income at the national level, and growth of income for the poor (generally defined as households in the bottom 20 percent of the income distribution). Thus, a 10 percent rise in per capita income is accompanied, on average, by a 10 percent rise in incomes of poor households.

Second, openness to trade is strongly associated with higher growth in developing countries. Many empirical studies have demonstrated that openness is a significant determinant of growth, along with "strong institutions, macroeconomic stability, a supportive international environment, avoidance of conflict, and a host of other factors." For countries like Mozambique, internal markets are too small to support rapid and sustained growth. Trade liberalization creates opportunities for efficient producers to tap vast new markets in line with comparative advantage, and to increase efficiency through scale economies. By fostering competition, trade reform enhances productivity and stimulates a more efficient allocation of resources. Openness is also an important lure for new investment, which is often packaged with technology, training, modern management practices, quality standards, and market contacts. Furthermore, export growth is essential for expanding import capacity, which allows the economy to acquire more of the capital, raw material, and intermediate goods needed for growth.

Third, openness to trade does not weaken the positive link between growth and poverty. The international empirical record does not support the common perception that openness leads to a pattern of growth that is unfavorable to the poor. Research indicates that variations in the

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[2] USAID, Integrated Framework Diagnostic Trade Integration Study (DTIS), November 2004, study written by Nathan Associates Inc.

relationship between growth and poverty are not affected, on balance, by openness to trade. If anything, trade may impart a pro-poor bias, implying that trade reform may benefit the poor directly, over and above its impact on growth. As Winters, McCulloch and McKay suggest, "pro-poor growth seems more likely to occur where initial conditions, including openness, give the poor the ability to take advantage of the opportunities it generates."[3]

Together, these three empirical regularities imply that trade policy (in combination with other economic and institutional reform) is an important instrument for poverty reduction in low-income countries. As Berg and Krueger[4] conclude, "trade openness has contributed to growth that has resulted in an unprecedented decline in absolute poverty over the past 20 years." Looking to the future, Cline[5] calculates that a move to global free trade would lift more than 500 million people out of poverty over the next 10 to 15 years.

Mozambique has had high GDP growth rates for many years, but the perception is that poverty is on the rise. As noted in the DTIS, the national poverty rate fell from 69.4 percent of the population in 1996-1997 to 54.1 percent in 2002-2003. Rural poverty also fell more than urban poverty. In rural areas, the poverty rate declined by 16 percentage points, from 71.3 percent to 55.3 percent. In urban areas, poverty incidence declined by 10.5 percentage points, from 62.0 percent to 51.5 percent. Additional analysis of current poverty reduction rates is required, but past analysis has shown that high GDP growth rates are moving more Mozambicans out of poverty. In addition, increased government revenue from taxes, trade and royalties can be spent on areas that can help Mozambicans move out of poverty. Also as mentioned in the DTIS, between 1994 and 1999, the share of government expenditure for education and health doubled, from 14 to 28 percent. In addition to having more resources to spend on social services, the government has more resources to spend on infrastructure, including roads, electrification and water—all basic services that help reduce poverty. Ultimately, trade can help with "pro-poor" growth by diversifying the economy into more labor-intensive sectors.

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[3] Winters L. Alan, N. McCulloch, and N. McKay. 2004. Trade Liberalization and Poverty: The Evidence So Far. Journal of Economic Literature, vol. 42 (1).

[4] Berg, Andrew and Anne Krueger. 2002. Trade, Growth, and Poverty. Presented at the World Bank's Annual Conference on Development Economics.

[5] Cline, William R. 2004. Trade Policy and Global Poverty. Washington D.C.: Center for Global Development and Institute for International Economics.

3. Mozambique's Trade Performance, 2009–2013

Trade, international and domestic, is integral to Mozambique's strategy for sustaining rapid growth and reducing poverty. Both have been the focus of government and donor-supported efforts over the past decade. And there have been some concrete results:

- Mozambique has eliminated all tariffs for SADC members, except about 96 sensitive C class goods to South Africa, which are either at 3 percent or 10 percent tariff (e.g., edible oils, dried beans, citrus, and other products of importance to Mozambique). These will be eliminated at the end of the current year. See Tables 3-1 and 3-2.
- Imports increased from $1.2 billion in 2002 to $8.1 billion in 2013. Much of this increase was generated by capital-intensive mining, gas, and exploration projects, but there has also been a concomitant increase in consumer goods.
- Exports increased from $682 million in 2002 to $3.7 billion in 2013 (again, much of this was due to mega-project exports).
- A new single window for trade, despite some implementation challenges, offers promise to further facilitate trade in Mozambique.

Table 3-1
SADC Tariffs to SADC Members Excluding South Africa, 2005-2012 (percent)

Category	Number Of Line Items	05	06	07	08	09	10	11	12
A	1613	0	0	0	0				
B1	1542	25	20	10	0				
B21	1350	7.5	7.5	4	0				
B22	541	5	5	3	0				
C1	233	25	20	20	20	15	10	5	0
C21	55	7.5	7.5	7.5	7.5	7.5	7.5	5	0
C22	7	5	5	5	5	5	5	3	0
C23	6	2.5	2.5	2.5	2.5	2.5	2.5	1	0
E	23	Excluded (arms & ivory)							

Table 3-2

SADC Tariffs Applicable to South Africa, 2005-2015 (percent)

Category	No. of Line Items	05	06	07	08	09	10	11	12	13	14	15
A	1509	0	0	0	0							
B1	1568	25	20	10	0							
B21	1348	7.5	7.5	4	0							
B22	547	5	5	3	0							
C1	269	25	20	20	20	15	15	15	10	10	10	0
C21	89	7.5	7.5	7.5	7.5	7.5	7.5	5	5	3	3	0
C22	7	5	5	5	5	5	5	3	0			
C23	10	2.5	2.5	2.5	2.5	2.5	2.5	1	0			
E	23	Excluded (arms & ivory)										

Nevertheless, the increase in import and export figures demonstrates that Mozambique is attracting investment in large projects that are generating trade and integrating further into regional and international markets. Of course, more needs to be done to translate increased trade into jobs and economic growth.

A number of initiatives have informed Mozambique's trade policy process through the years. It is a member of the WTO and of the Southern Africa Development Community (SADC); has a variety of bilateral agreements, including a Trade and Investment Framework Agreement (TIFA) with the United States, the African Growth and Opportunity Act (AGOA) and the European Union's Economic Partnership Agreement and the Everything But Arms (EBA) Agreement[6]; and is part of the Enhanced Integrated Framework (EIF). National structures also have been set up to coordinate trade policy among economic ministries.

The recent WTO Bali Ministerial reached consensus on issues that could be important for Mozambique, such as trade facilitation. SADC has an ever-expanding list of priority topics for discussion. Preferential agreements, such as the General System of Preferences, EBA, and AGOA, are going through important changes. Mozambique must understand these changes in order to lobby effectively. And the US-Mozambique TIFA teams will certainly continue to meet to resolve issues with hopes of establishing an FTA between the two countries. This is a heavy agenda and CTA should be paying attention to it and providing private sector perspective on these many initiatives.

MOZAMBIQUE'S TRADE-WEIGHTED TARIFF KEEPS FALLING

Mozambique's trade weighted tariff dropped from 4.5 percent in 2010 to 3.9 percent in 2013 (Table 3-3). The drop, due mainly to further elimination of tariffs from SADC, also signals that tariff trade continues to be liberalized. If we were to take out SADC tariffs and look only at Mozambique's most-favored nation (MFN) tariff trade-weighted average, it increases to 6.4

[6] The EBA gives LDCs, as defined by the UN, duty-free and quota-free access to the EU for the over 7000 tariff lines (all EU non-0 tariff lines with the exception of arms and armaments). In 2012, more than €12 billion imports were made by countries with EBA benefits.

percent, which is still reasonable and in a range similar to other countries. The national trade-weighted tariff of the United States is 2.1 percent, of the European Union 2.7 percent, South Africa 5.9 percent, China 4.1 percent, and Brazil 10.2 percent.[7] However, significant nontariff barriers (NTBs) continue to stymie Mozambique's efforts to build international competitiveness and world-class industries. Further effort by CTA to address NTBs should be at the forefront of CTA activities.

Table 3-3

Mozambique's Trade Weighted Tariff

	2009	2010	2011	2012	2013
Exchange Rate (USD/MTN)	26.71	32.98	29.06	28.23	29.91
Taxes on international trade (USD $ '000)	152,751,778	160,703,457	230,557,467	269,217,145	320,962,889
Value of imports (USD $ '000)	$ 3,764,207,000	$ 3,564,230,000	$ 6,312,159,000	$ 8,687,975,280	$ 8,181,296,333
Value of exports (USD $ '000)	$ 2,147,183,335	$ 2,333,250,120	$ 3,604,203,142	$ 3,855,538,399	$ 3,758,014,840
Weighted average tariff (revenue/imports)	4.058%	4.509%	3.653%	3.099%	3.923%

*Source IMF

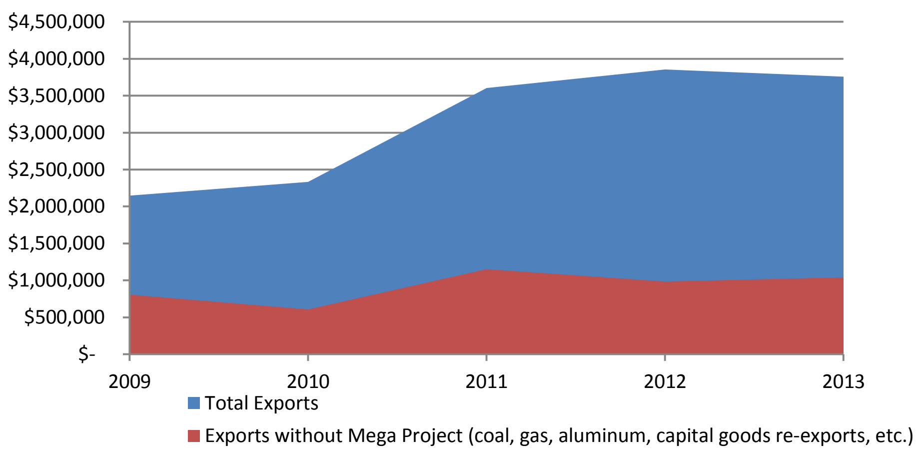
** Taxes on International Trade originally in MTN - converted using official exchange rate

EXPORTS KEEP GROWING

Mozambique's exports have increased steadily since 2009, reaching $3.7 billion in 2013. Much of the increase can be attributed to investment projects coming on line (Vale) as well as existing mega-projects (e.g., Mozal), which have required large amounts of capital equipment imports as well as the resulting exports. Taking out exports associated with mega-projects, exports have remained steady at about $1 billion per year since 2011, rising from $800 million in 2009 and only $607 million in 2010 (see Figures 3-1).

Figure 3-1

Mozambique Exports, 2009-2013 (US$ '000)



SOURCE: INE preliminary estimates (2013, preliminary).

[7] World Trade Organization, Trade and Tariff Indicators.

Key Export Sectors Include Mega-projects (Aluminium, Coal, Gas) and Traditional Sectors (Cotton, Shrimp, Wood)

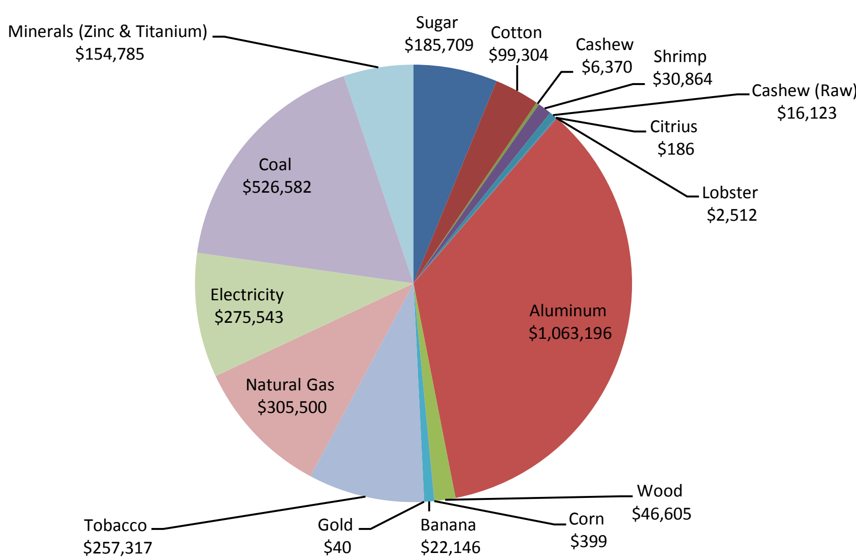
An examination of the composition of key exports since in 2012/13 (Figure 3-2) reveals an enormous increase in gross earnings on coal from Vale coming on stream. Specifically, coal exports rose from zero in 2010 to US$562 million in 2013, ranking second only to aluminum ($1.06 billion in exports for 2013). Natural gas and electricity exports from Cahora Bassa also topped export earnings. The only other major export expansion over this timeframe was in the sugar sector, which saw exports rise to $188 million in 2013, and which was a result of new investment to rehabilitate the industry, along with the availability of limited quota access into the EU and U.S. markets. Cotton exports rose over 50 percent to $99 million in 2013. Banana exports also came on stream in 2012 with exports $26 million in 2012 and $22 million in 2013. Shrimp, tobacco, and cashew were other notable tradition sectors.

Wood exports declined from $176 million in 2012 to $46 million in 2013 perhaps reflecting increased control aimed at preventing exports of this sector. Other major export products experienced declines or erratic patterns between 2009 and 2013: gold, corn and raw cashew nuts saw declines or stagnation.

This reinforces the observation that trade liberalization has not produced jobs in manufacturing, despite the benefits offered by AGOA and other trade preferences. Given the importance of labor-intensive export growth for economic development and poverty reduction, these observations are very disturbing. They underscore the need for further reforms in business environment to encourage investment in the manufacturing and services.

Figure 3-2

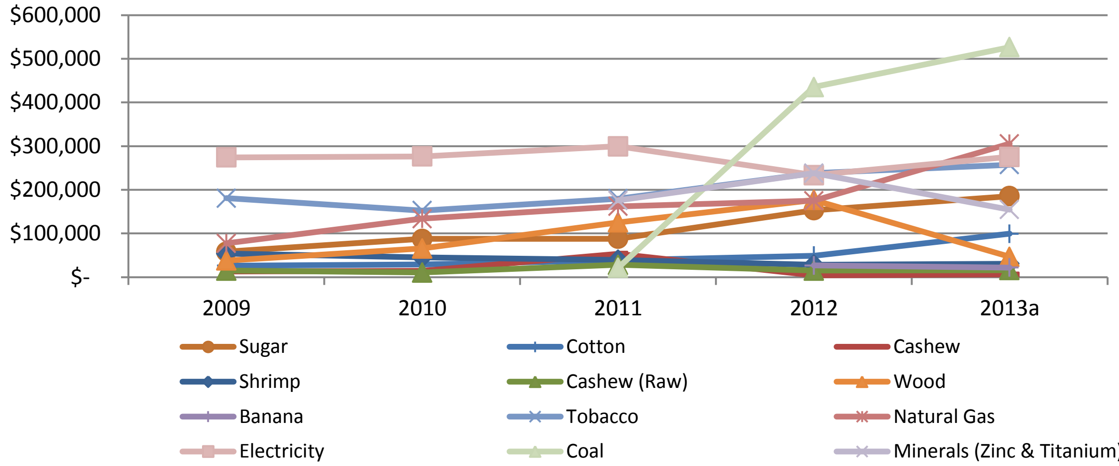
Key Exports 2013 (US$ '000)



SOURCE: *INE preliminary estimates.*

Table 3-4

Growth of Selected Exports, 2009-2013 (US$ '000)



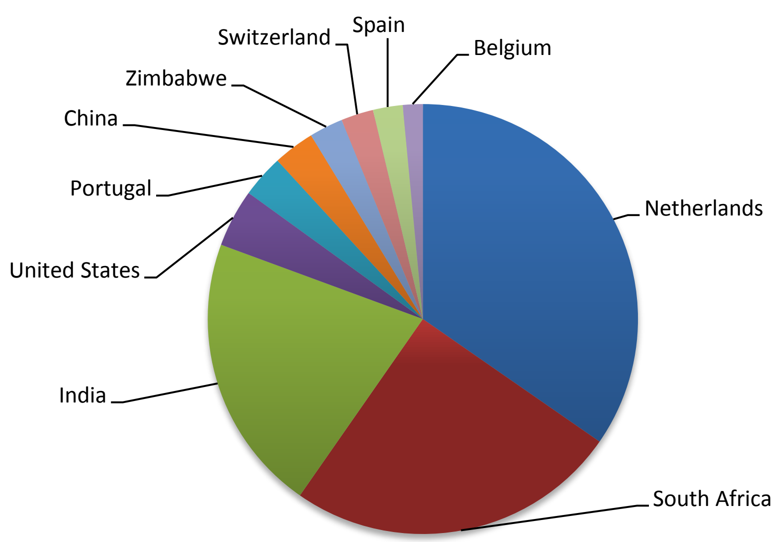
SOURCE: INE preliminary estimates (2013, preliminary).

Top Export Destinations Include South Africa, India, and the Netherlands

Principal exports to India include nuts, vegetables, dal (pigeon peas), and ores (such as Niobium, tantalum, vanadium or zirconium, some fish and wood). Main exports to South Africa include fish, fruit, nuts, iron, and natural gas. Main exports to the Netherlands include aluminum, tobacco, nuts, and spirits and liquors. Main exports to the United States include ores, fruits and nuts, cotton, and tobacco. Other countries such as Belgium, Spain, China and Switzerland round off the top 10 export destinations for Mozambique (see Figure 3-3 and Table 3-5).

Figure 3-3

Top 10 Export Destinations, 2013 (US$ millions)



SOURCE: INE preliminary estimates.

Table 3-5
Main Export Destinations

	Country	US $ (million)
1	Netherlands	1,124,445
2	South Africa	811,956
3	India	679,186
4	United States	141,308
5	Portugal	104,234
6	China	101,017
7	Zimbabwe	82,343
8	Switzerland	78,967
9	Spain	72,437
10	Belgium	48,560
11	Malawi	41,421
12	United Kingdom	38,645
13	Italy	35,916
14	Singapore	35,587
15	Indonesia	32,656
16	Tanzania	24,230
17	Japan	20,296

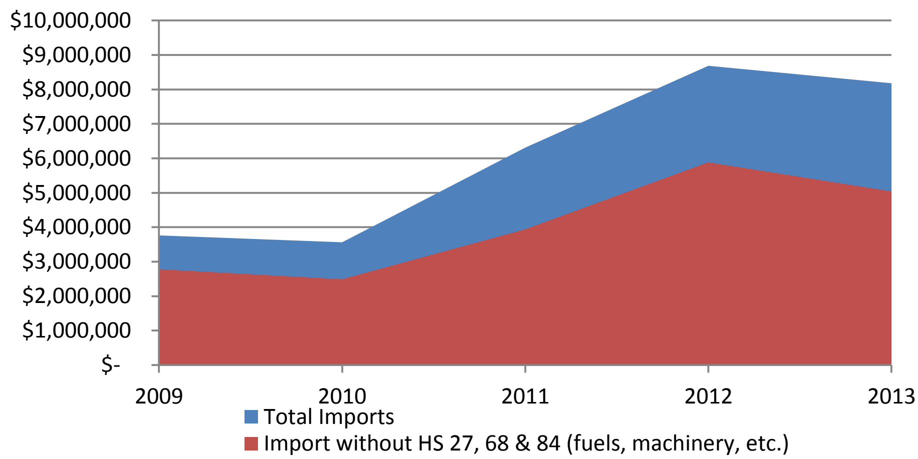
SOURCES: COMTRADE, INCE, ITC. (Preliminary data from INE are not official and are subject to change.

IMPORTS GREW THROUGH 2012, BUT STAGNATED IN 2013

Imports also boomed through 2012, rising from US$3.7 billion in 2009 to US$8.1 billion in 2013 (estimated). Much of this increase is associated with construction and input procurement for mega-projects. Taking out HS Chapters 27, 68, and 84—line items associated with mega-project construction—imports reached $5.04 billion in 2013, down from $5.88 billion in 2012, but still a substantial increase from $2.7 billion in 2009 (see Figure 3-4).

Imports, however, went from $8.6 billion in 2012 to $8.1 billion in 2013, even in sectors not related to mega-projects. This is surprising as SADC tariffs were eliminated in most areas. Many in Mozambique expected a surge in imports once SADC tariffs were eliminated. This suggests that nontariff barriers (NTBs) are restricting imports. Many in Mozambique also complain of the unnecessarily high cost of consumer goods, which again suggests the influence of NTBs. NTBs reduce the competitiveness of Mozambique, which can lead to economic stagnation and unemployment. NTBs also reduce the gains of trade liberalization that Mozambique has solidified through international agreements through the years. Yet, despite NTBs, imports continued to growth through the 2009–2013 period.

Figure 3-4
Mozambique Imports, 2009-2013 (US$ '000)

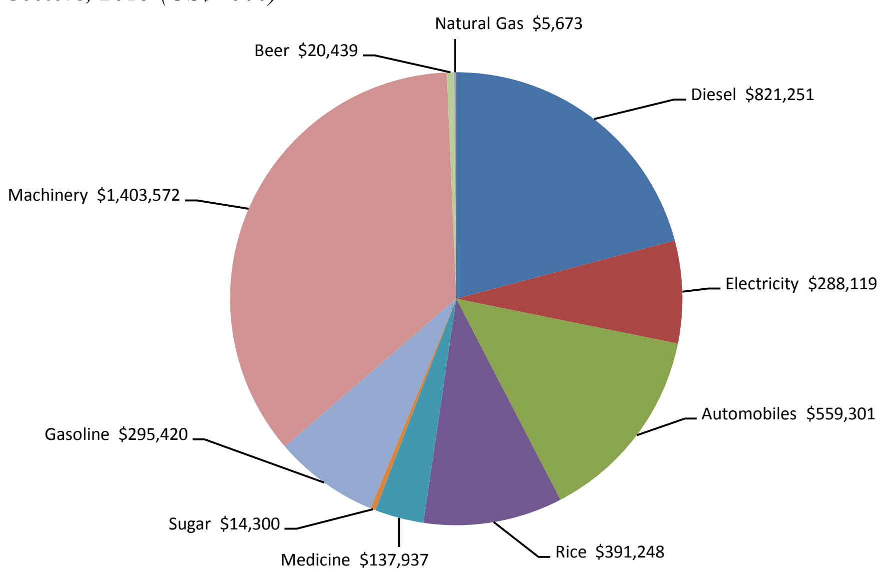


SOURCE: INE (2013 preliminary).

Key Imports Include Machinery, Natural Gas, Automobiles, and Rice

In addition to machinery (for mega-projects), key imports in 2013 included automobiles, electricity, diesel, gasoline, cereals, sugar, and medicine (Figure 3-5). These same goods have been consistently imported through the years.

Figure 3-5
Key Import Sectors, 2013 (US$ '000)



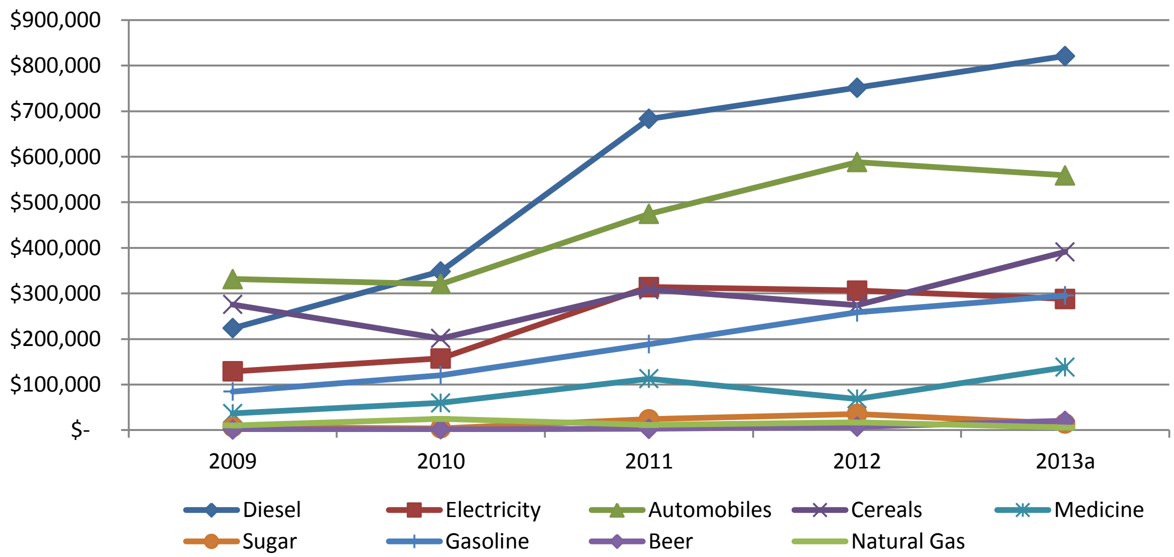
SOURCE: INE preliminary estimates.

Imports in Key Sectors Stagnated in 2013

As noted, imports fell from $8.6 billion in 2012 to $8.1 billion in 2013, even in sectors not related to mega-projects. This is surprising as SADC tariffs were eliminated in most areas. Imports of diesel, rice, beer, and medicines also showed growth in 2013, despite declines in other sectors, such as automobiles, electricity, sugar and natural gas.

Figure 3-6

Growth of Selected Imports, 2009-2013 (US$ '000)



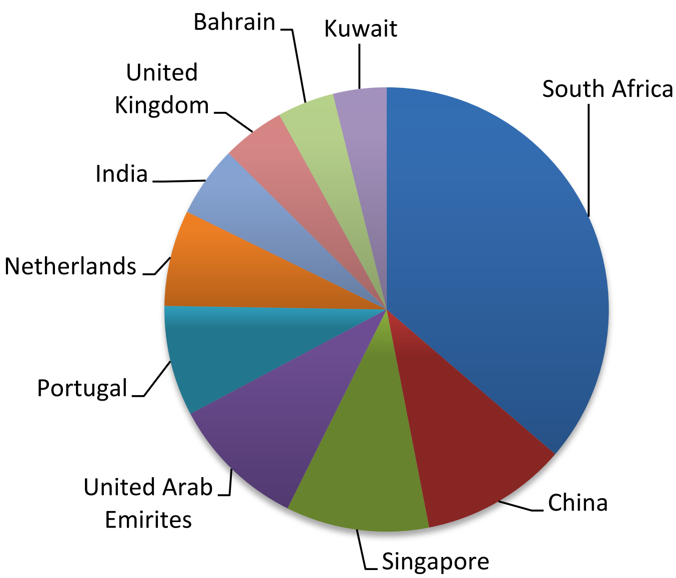
SOURCE: INE (2013 preliminary estimates).

Top Exporting Countries to Mozambique

Not surprisingly, South Africa is the top exporter to Mozambique in 2013, followed by China and Singapore, the United Arab Emirates, Portugal, and the Netherlands. Exports from South Africa include natural gas, machinery, steel, automobiles and numerous consumer goods such as furniture, soaps, perfumes and agricultural products such as vegetables. Exports from China include machinery, electrical equipment, iron and steel, vehicles and fertilizers. Exports from Singapore include precious stones, metals, railway equipment, clocks and watches, musical instruments, furniture and toys (Figure 3-7 and Table 3-6).

Figure 3-7

Top 10 Exporting Countries to Mozambique, 2013 (US$ millions)



SOURCE: INE preliminary estimates.

Table 3-6

Main Exporting Countries to Mozambique

	Country	US$ million
1	South Africa	2,176,186
2	China	638,362
3	Singapore	624,784
4	United Arab Emirates	591,623
5	Portugal	481,909
6	Netherlands	418,905
7	India	309,896
8	United Kingdom	274,285
9	Bahrain	247,642
10	Kuwait	232,968
11	Japan	222,955
12	Bahamas	195,915
13	United States	187,792
14	Thailand	146,947
15	Vietnam	120,514
16	Germany	95,491
17	Australia	90,829

SOURCES: COMTRADE, INE, ITC. (Preliminary data from INE are not official and subject to change.).

4. Trade Facilitation: WTO Trade Facilitation Agreement

Facilitating trade can boost imports and exports and improve a country's competitiveness by (1) reducing delays and costs for importers and exporters, (2) making customs and borders processes simpler and more uniform and predictable, and (3) making it easier for businesses to engage in international trade. The WTO Trade Facilitation Agreement (TFA) was agreed to at the WTO Bali Ministerial in December 2013. Through it, the WTO's 159 member will commit to expediting the movement, release, and clearance of goods and to improving cooperation on customs matters. Once the agreement is fully implemented, customs' processes and revenue collection will become more efficient and small businesses will be better able to pursue export opportunities thanks to more transparent customs practices, fewer documentary requirements, and pre-arrival processing of documents (see sidebar). Substantive areas of the TFA include the following:

- ***Procedural simplification***: For example, pre-arrival processing of goods, electronic payments, expedited shipment, and fewer documents and formalities.
- ***Integrated border management***: Coordinated clearance of goods at borders among customs and agriculture and public health agencies and the like through a single window with uniformity in procedures and documents.
- ***Compliance management***: Risk management, authorized economic operator programs and post-clearance audit programs address customs' concerns about supply chain security while rewarding traders' voluntary compliance by expediting clearance and facilitating trade.

Key Disciplines Addressed in the WTO Trade Facilitation Agreement

- Publication of Laws, Regulations & Procedures
- Internet Publication of Practical Steps to Import, Export and Transit Goods
- Enquiry Point for Trade Information
- Information on New Laws & Regulations Before their Implementation
- Provision of Advance Rulings
- Enhanced Right of Appeal
- Notification of Detained Goods
- Disciplines on Fees and Charges
- Penalty Disciplines to Prevent Conflicts of Interest
- Pre-Arrival Processing of Goods
- Use of Electronic Payment
- Use of Guarantees to Allow Rapid Release
- Promoting Risk Management
- Creation of Authorized Operator Schemes
- Procedures for Expedited Shipments
- Quick Release of Perishable Goods
- Reduced Documents and Formalities
- Utilizing Common Customs Standards
- Promoting use of Single Window
- Uniformity in Border Procedures & Documents
- Temporary Admission of Goods
- Simplified Transit Procedures
- Customs Cooperation
- Facilitate Developing Country Implementation

- ***Transparency and public-private dialogue***: The publication of trade laws, regulations, and procedures will eliminate ambiguity in the clearance of goods and eliminate opportunities for corrupt practices.

Exhibit 4-1 provides details on TFA articles.

Exhibit 4-1

Articles of the WTO Trade Facilitation Agreement

1. Publication and Availability of Information. Requires members to publish online 10 categories of information for traders, such as import, export, and transit procedures; relevant forms and documents; and appeals procedures. No fee may be charged for information. Also requires members to name national enquiry point and notify WTO where items have been published.

2. Opportunity to Comment. Requires members to offer an opportunity for public to comment on new laws and regulations on movement, release, and clearance of goods, including goods in transit. It also requires members to publish new laws and regulations and sponsor public-private dialogue between border agencies and traders to identify and address further obstacles to trade facilitation.

3. Advance Rulings. Requires members to issue advance rulings for (1) tariff classification and (2) origin. It encourages but does not require advance rulings in other areas. States that advance rulings shall be binding and that members shall publish advance-ruling applications, issue timeframes for receipt and delivery of verdicts as well as a validity period.

4. Appeal Procedures. States that any person/entity that is issued an administrative decision by customs has the right to an appeal or review. An appeal or review should be (a) by authority higher than office/official who issued the decision; and/or (b) by judicial appeal or review. There should be a further appeal option if the decision not issued within the set time period. Encourages member states to include other border agencies in addition to customs.

5. Enhanced Transparency. This article relates to border controls and inspections of foods, beverages or feedstuffs. Where a member state issues notifications or guidance for enhancing the level of control or inspection of such goods, the article obliges the member state to base such controls or inspections on risk, to apply such measures uniformly. Requires members to inform trader if goods are detained.

6. Fees and Charges. Requires a delay between publication of new fees and charges and entry into force of the fees and charges. Requires members to review fees and charges and consider reducing them. Requires all fees/charges be equivalent to cost for service rendered. Also addresses application of penalties, stating that penalties should be imposed only on the responsible party; be commensurate with the degree and severity of the violation; avoid conflicts of interest and incentives that encourage collection; be explained. Voluntary disclosure of offenses should be considered a mitigating factor (i.e., if the trader voluntary discloses an error, member governments will work to reduce penalties).

7. Release and Clearance. Requires members to adopt pre-arrival processing procedures in electronic format and allow electronic payment of duties, etc. Members should allow release of goods prior to final determination of duties, etc. Requires members to adopt a risk management system and risk-based post-clearance audit. And it encourages members to measure and publish average release times.

8. Border Agency Cooperation. Requires border agencies to cooperate with each other and coordinate activities to facilitate trade. It extends to the other side of the border and encourages members to mutually agree on items such as (a) aligning working days/hours and procedures; (b) sharing common facilities; (c) establishing joint controls; and (d) establishing one-stop border post controls.

9. Movement of Goods. Requires members to allow goods intended for import to be moved within the country under customs control from a customs office of entry to another customs office in its territory where the goods would be released or cleared.

10. Import/Export Formalities. Requires members to review formalities and documentation to ensure they facilitate trade. Requires members to accept paper/electronic copies. Encourages members to use international standards. Requires members to establish a single window; *not* impose pre-shipment inspections for tariff classification and customs valuation; *not* make the use of customs brokers mandatory; and make import/export rules transparent. Requires procedures and documentation to be identical at all borders. States that an importer shall have the option to return rejected goods to the exporter. And finally, requires members to allow inward and outward processing, and these goods may be re-imported with total or partial exemption from import duties and taxes.

11. Freedom of Transit. States that traffic in transit through a member state should move as quickly and freely as possible and that the following provisions apply: (a) minimal administrative fees/charges; (b) separate infrastructure (e.g., port clearance facilities) for traffic in transit; (c) minimum documentation requirements; (d) that any technical regulations and conformity assessment will not apply; (e) advance filing for transit clearance are allowed; (f) any guarantee or bond paid shall be returned promptly, and (g) customs convoys or escorts are only used for high risks. Also states that each member appoint a national transit coordinator.

12. Customs Cooperation. Encourages cooperation between member countries' customs administrations regarding the exchange of information. Lays out protocols for sharing information and encourages cooperation between customs administrations and traders, such as voluntary compliance.

13. Institutional Arrangements. Establishes a WTO Committee on Trade Facilitation that will meet at least once a year, is open for participation to members, and is responsible for coordinating with other TF organizations, such as the World Customs Organization. Also requires members to establish a national committee on trade facilitation for domestic coordination and implementation of the agreement.

Categories of Provisions of the TFA

The TFA has the following three categories of provisions:

A: Designated for implementation upon entry into force of the agreement (currently anticipated for July 31, 2015), or for LDCs, implementation can be within one year after entry into force. Countries must notify Category A provisions before the next WTO General Council Meeting, scheduled for July 31, 2014.

B: Designated for implementation on a date after a transitional period of time following entry into force. Countries must notify definitive implementation date within one year after entry into force.

C: Like Category B, but these are provisions where a country requires technical assistance and capacity building prior to implementation. Countries must notify provisions and tentative dates for implementation upon entry into force of the TFA and describe the technical assistance and capacity building required. Within one year of TFA implementation, countries must notify the WTO of technical assistance arrangements that are planned and/or undertaken. And within 18 months of TFA implementation, countries must send a second notification report on progress and set definitive dates for implementation of Category C provisions.

Recommendations for CTA for TFA Opportunities for Mozambique: Putting TFA on CTAs Agenda

The WTO TFA presents big opportunities for Mozambique, mainly because many requirements in the TFA are already being undertaken by Mozambique, such as the single window. The following are urgent recommendations:

1. ***Demonstrate a commitment to unilateral trade facilitation***. This might be done by
    - Clearly stating that trade facilitation is important to Mozambique (e.g., it has been a focus in the past, there have been successes, and it remains integral to the Government's and CTA's plans);

— Having a high-level government official (e.g., customs, finance, trade) speak on the importance of trade facilitation to the government; and/or

— Preparing information on trade facilitation activities that the government has done independently and which demonstrate a commitment to reform (e.g., the single window).

2. ***Commit a few key reforms in Category A (of the WTO Trade Facilitation Agreement).*** Category A commitments for LDCs require countries to notify and implement provisions within one year *after* entry into force (estimated entry date of agreement to be mid-2015). Developing country members must notify their Category A commitments in advance of the WTO General Council meeting scheduled for July 2014. If work on these commitments has not already started it must start immediately. CTA should review commitments and suggest areas in which to commit in Category A before July 2014. Some areas for possible Category A commitment include:

   Article 1: Publication and Availability of Information
   a) Shall publish 10 categories of information including:
      i. Importation, exportation, and transit procedures;
      ii. Their relevant forms and documents; and
      iii. Appeals procedures.
   b) Shall name national enquiry point, may name regional, should not charge fee.
   c) Shall notify WTO where items have been published.

   Article 2: Opportunity to Comment
   a) Shall offer an opportunity for public to comment on new laws and regulations on movement, release, and clearance of goods, including goods in transit.
   b) Shall publish new laws and regulations.
   c) Shall sponsor public-private dialogue between border agencies and traders.

   Article 6: Fees and Charges
   a) Shall review fees and charges and consider reducing.

   Article 7: Release and Clearance
   a) Shall allow for electronic payment of duties, etc.

   Article 10: Import/Export Formalities
   a) Shall accept paper/electronic copies.
   b) Shall establish a single window, utilizing IT.
   c) Procedures and documentation shall be identical at all borders.

3. ***Finalize Completion of a WTO TFA self-assessment.*** Many countries have used the WTO's self-assessment guide to figure out where they stand, where they can make commitments, and where they need technical assistance and capacity building. The Trade Working Group of the Private Sector Working Group (PSWG) is assisting with the completion of the self-assessment, which should be completed in time to allow for Mozambique to make Schedule A commitments. The guide is available at http://www.wcoomd.org/en/topics/facilitation/activities-and-programmes/wto-trade-facilitation-negotiations/~/media/ 4CA29229CCB948A68C4C2A975BD90AC4.ashx

4. ***Establish National Committee on Trade Facilitation.*** The agreement requires members to establish a national committee on trade facilitation for domestic coordination and

implementation of the agreement. CTA should work with the government to quickly establish a committee.

5. ***Support workshop(s) to present/adjust the TFA self-assessment, with working groups etc.*** CTA could begin a series of workshops jointly with the government that would help to build awareness, support and momentum for further trade facilitation reforms in Mozambique.
6. ***Undertake a TCBaseline Assessment.*** This customs needs assessment covers many areas in the TFA, (e.g. risk management, AEOs, transit, IT). CTA might request that USAID help fund an assessment to get a better sense of what areas require additional support.
7. ***Develop a trade portal.*** A trade portal helps to publicize import/export rules, regulations, tariffs, NTBs, etc. It is also a good way to demonstrate a desire to improve border clearance procedures and commitment to trade facilitation.
8. ***Pre-shipment Inspection.*** One of the requirements of the agreement is to not use PSI for tariff valuation or customs classification. CTA and the government have been discussing eliminating PSI for many years. The TFA presents a good opportunity to make perhaps a Category A commitment to eliminating PSI and to get technical assistance to bring valuation and classification roles back into Mozambique Customs.
9. ***Single Window***. Though establishing a national single window is a fairly advanced task for many LDCs, Mozambique is fortunate to be fairly well along in doing so. Additional support might be welcome in some areas (e.g., resolving the persistent problem of electronic interconnection between border posts, training and capacity building in the use of the system). Later, Mozambique could be supported in advancing the single window concept in SADC to ensure increased uptake and interoperability.
10. ***Other areas.*** After a TFA self-assessment or TCBaseline assessment, significant advances can be made in several areas—such as advance rulings, pre-arrival processing, risk management, post-clearance audit, legislation, developing a TF enquiry point— all areas outlined in the TFA. This will require more time and effort and is a long-term goal, but one that should be put onto CTA’s agenda for monitoring and discussion with government.

5. Nacala Dry Port

Properly run dry ports can expedite trade and reduce trade costs. They can free up resources and space at maritime ports and, because they are on less expansive land, reduce storage costs, especially costs associated with demurrage and lengthy customs clearance. In addition, well designed dry ports can offer a multitude of services necessary for effective staging of export and import containers and bulk cargo (see sidebar).

Key Dry Port Facilities

- Offices of shipping line agents
- Railway goods office
- Road haulage brokerage
- Cargo packing services
- Consignment consolidation services
- Unit train assembly and booking services
- Container clearing services
- Computerized cargo-tracking services
- Container repair facilities
- Clearing and fumigation services (atmospheric and vacuum)
- Refer refrigeration points
- Weigh bridges.

In February 2010, the Government of Mozambique approved establishment of a dry port in Nacala. A private company, NCL & Africa Import and Export Ltd., received a concession to operate the port, known as the Special Terminal for the Exportation of Products (TEEN). The purpose of the dry port is to offer port clearance services and reduce congestion at the Nacala maritime international terminal. TEEN and the maritime terminal operated simultaneously and provided the same services to exporters and importers until January 18, 2012, when the customs authority announced that exporters had to use the new terminal. TEEN, however, is 9 km from the port, and exporters who built warehouses next to the port face rising costs in transferring merchandise to TEEN. In addition, handling charges at TEEN are higher than at Nacala (US$87 more for 20-foot containers and US$156 more for 40-foot containers). Additional and duplicative logistic movements and handling costs have also resulted from the requirement to clear export cargo through the terminal. And according to ACIANA, the additional cost to exporters of using TEEN ranges from US$274 to US$494.[8]

Recommendations for CTA on the Nacala Dry Port

CTA should continue to examine the obligatory use of the dry port in Nacala. Specifically, CTA should aim to ensure that

- Tasks are not being duplicated in either terminal. If an export shipment is cleared to export from TEEN, it should immediately be loaded and shipped once it arrives at the

[8] SPEED Report 011: Terminal Especial de Exportacao de Nacala, and Logistics Review of Beira and Nacala Coridoors, Agrifuturo 2012.

maritime port. Likewise, if an import is sent to TEEN for inspection and clearance, it should not be inspected at the maritime port too.

- All necessary importing and exporting services are available at TEEN.
- International best practices for dry ports are followed. UNCTAD's handbook on dry ports could be very helpful as Mozambique works to make import/export processes and infrastructure in Nacala as efficient as possible (http://r0.unctad.org/ttl/docs-un/unctad-rdp-ldc-7/UNCTAD_RDP_LDC_7.pdf).
- The maritime and TEEN port terminals in Nacala are thoroughly reviewed with regard to the WTO Trade Facilitation Agreement, especially Article 6 (Fees and Clearance).

6. Scanners

In April 2006, the Mozambican Council of Ministers issued Decreto n.º 10/2006 authorizing the introduction of non-intrusive customs inspections using modern scanning technology, through a concession to a private-sector operator[9]. The Decreto suggests that the concession arrangement was motivated by the high cost of procuring and operating the scanning equipment. The Decreto also provided for the concessionaire to recover its costs by charging fees to the shippers.[10] The government then awarded the concession to Kudumba, a new Mozambican company.

Using scanning equipment for non-intrusive inspection of containers and cargo is a recent innovation that became a security priority at major ports after 9/11. In addition to strengthening port security, non-intrusive inspections can also be useful in protecting revenue and controlling contraband.

Scanning uses X-ray or gamma ray machines to check the contents of containers or shipments selected for scrutiny on the basis of a risk assessment. To strike a balance between trade facilitation and effective customs operations, most countries select no more than 20 percent of shipments for inspection.[11] The scan usually takes just a few minutes. Indeed, high-speed machines can do 200 scans per hour. For most shipments, the non-intrusive scan obviates the need for time-consuming manual inspection. The traditional manual inspection is conducted only if the scan reveals anomalies or discrepancies in the declarations, or as otherwise warranted by the risk assessment. Thus, an efficient scanning process can benefit legitimate shippers and facilitate trade by speeding up customs clearance. This requires an effective risk management system, appropriate training for officers reading the scans, and strong systems to control corruption in the inspection process.

The use of scanning equipment based on sophisticated risk assessment methods is required at major ports that participate in the Container Security Initiative (CSI) established by the United States government. Durban is the only CSI port in Africa. Shipments to the United States originating from non-CSI ports (like Maputo) often pass through a transshipment hub (like Durban) and are subject to risk assessment and scanning at that point. Shipments that do not pass

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[9] USAID Trade and Investment Project (TIPMOZ), Briefing Note on Scanning Fees, Bruce Bolnick, 2007.

[10] The Decree also covered the inspection of baggage and passengers. These aspects are not addressed in the present note.

[11] Francois L. Corfinat, “Simplifying Procedures and Improving Control Prior to Release of Goods,” in IMF, *Changing Customs*, p. 70.

through CSI ports can still enter the United States, but face more stringent procedures. Evidently, the EU is considering similar program.

The use of scanners is recommended, but not required, by the World Customs Organization (WCO) *Framework of Standards to Secure and Facilitate Global Trade,* to which Mozambique is a signatory.[12] Mozambique also complies with the International Ship and Port Security (ISPS) Code of the World Maritime Organization (WMO). This code mandates that every port must conduct security assessments, but it does not require scanning equipment.[13] One reason the international conventions do not require scanners is that they are expensive and do not always make economic sense, especially for low-volume ports in low-income countries.

How should the cost of scanning inspections be financed? There is no standard approach. Some countries impose a fee on shippers to cover part or all of the cost, while others bear the cost as a budget expense. Where fees are imposed, they can be levied by the government, by the port terminal operator, or by an independent contractor. In general, the WTO allows government-imposed fees for customs services—including security fees—as long as fees are "limited in amount to the approximate cost of services rendered."[14]

In a review of eight cases, the World Bank's *Customs Modernization Handbook* cites the use of WTO-compatible fees as an important element of customs reform, to provide "sufficient resources to maintain their new, modern systems" (p.125). A recent United Nations report on maritime security finds that financing arrangements vary widely by port, with container security charges being fairly common.[15] The report lists 20 ports in 16 countries where container security fees are charged, ranging from US$1.50 to US$19 per TEU.[16] Mozambique's main competitor for port and transit services, South Africa, does not charge inspection fees.

In summary, there is no international requirement for introducing scanning technology for customs inspections in Mozambique. In general, the use of scanning equipment is desirable, but also costly. Where scanning equipment is being used, the imposition of scanning fees to cover this cost is common but not universal.

According to press reports, the first scanner acquired for the Port of Maputo cost US$4 million, including the cost of supporting infrastructure. In the future it should be possible to procure scanners at a much lower price.

The government awarded a concession for operating the scanners to a local company, Kadumba, on a build-operate-transfer arrangement. Alfandegas (the customs service) is responsible,

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12 The WCO has also issued "Guidelines for the purchase and operation of container scanning equipment," but the author was unable to obtain a copy for this report.

13 Luc De Wulf and Omer Matityahu, "The Role of Customs in Cargo Security," in *Customs Modernization Handbook*, World Bank, 2005, p. 267.

14 GATT 1994, Article VIII, section 1(a).

15 United Nations, *Maritime Security: Elements of an Analytical Framework for Compliance Measurement and Risk Assessment*, UNCTAD/SDTE/TLB/2005/4, 2006.

16 TEU = Twenty-foot equivalent unit. This is a standard measure of container traffic.

however, for reading the scans, interpreting the data, making decisions on further inspections, and approving clearances. Press reports state that the equipment can scan a 12-meter container in two minutes. However, a senior official informed the TIP project that the scanner is currently used to inspect about 30 containers per day.

The concession holder, Kadumba, is authorized to recover the cost of the scanning by charging shippers a fee. The fees are subject to review by Alfandegas and approval by the Ministry of Finance (MOF). Specifically, Article 5 of the Decreto states that the cost of non-intrusive inspections is supported by the users. The decree does not define the term “cost,” but the obvious inference is that the fees are to be determined by actual costs, including a normal return on capital. Controversy centers on the schedule of fees approved by the government:[17]

- Import containers $100 per TEU
- Export containers $ 70 per TEU
- Empty containers $ 20 per TEU
- Transit containers $ 45 per TEU
- Vehicles $ 65 per unit
- Bulk cargo $0.25 to $1.90 per ton

Four aspects of the schedule are noteworthy. First, the fees are extremely high relative to the available evidence on costs in other countries. Second, the container fee is defined per TEU. Many shippers now use 40-foot containers, which count as two TEUs; for these containers the fee is twice as high as the figures shown. Third, fees are to be levied on 100 percent of the shipments, including empty containers and bulk cargo, irrespective of whether the shipment is inspected. This is a major deviation from standard practice in other countries.

Recommendations for CTA on Scanners

CTA should continue to examine issues relating to the use of scanners in Mozambique. Specifically, CTA should aim to ensure that:

- Scanners are used selectively on the basis of a risk assessment. Development of risk assessment techniques are foreseen in the WTO TFA, and Mozambique could receive financial and technical assistance if it commits to using risk assessment techniques.
- Only the portion of a consignment selected for scanning on the basis of a risk assessment is charged for, not the entire (and unscanned part) consignment.
- An approved economic operators (AEO) or trusted trader program is established to help customs reduce the amount of trade subject to scanning.
- Transit cargo is not subject to scanning.
- Fees are reviewed, as per the WTO TFA, to reduce fees. The government should consider absorbing scanning fees themselves to help further reduce costs for importers and exporters, thus making Mozambique more competitive.

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[17] MCLI Reader Newsflash 289, November 17, 2006.

7. Nontariff Measures: Adding Costs and Reducing Competitiveness

Nontariff measures are measures other than ordinary customs tariffs that affect trade in goods. They include quotas, licenses, technical barriers to trade, sanitary and phytosanitary measures, export restrictions, custom surcharges, financial measures and antidumping measures—typically business-related red tape (Table 7-1). Whatever their intended purpose, such measures can reduce trade flows and raise prices.

Table 7-1
International Classification of Nontariff Measures

	Measure
a	Sanitary and phytosanitary measures
b	Technical barriers to trade
c	Pre-shipment inspection and other formalities
d	Price control measures
e	Licenses, quotas, prohibitions and other quantity control measures
f	Charges, taxes and other para-tariff measures
g	Finance measures
h	Anti-competitive measures
I	Trade-related investment measures
j	Distribution restrictions
k	Restrictions on post-sales services
l	Subsidies (excluding export subsidies)
m	Government procurement restrictions
n	Intellectual property
o	Rules of origin
p	Export-related measures

SOURCE: *World Trade Organization / UNCTAD,* A Practical Guide to Trade Policy Analysis, *2012.*

The more neutral "nontariff measures" is preferred over the term "nontariff barriers" because it leaves open to judgment whether a measure constitutes a trade barrier. NTMs may be intrinsically protectionist but may also address market failures, such as externalities and information asymmetries between consumers and producers. An NTM that addresses a market failure may restrict trade while also improving welfare. Another NTM, such as a standard or an export subsidy, may expand trade. The term "nontariff measure" does not carry judgment as to economic effect, appropriateness for policy goals, or legal status under the WTO's legal framework or other trade agreements. The qualification of NTMs as NTBs can only be done as a result of analysis based on comprehensive data.[18]

As SADC and other tariffs are reduced and eliminated, one would expect prices of imported goods to fall in Mozambique. However, it appears as if prices keep rising. Nontariff barriers may be partly to blame, though further study is warranted. NTBs remain major impediments to trade and business development in Mozambique. As noted earlier, tariffs on intra-SADC trade have been eliminated on all but 97 line items, and those remaining items will be eliminated at the end of 2014. In addition, Mozambique's trade-weighted tariff is a low 3.9 percent. Yet prices have not fallen, especially as compared to prices in neighboring countries (a more detailed study and analysis of price differentials is required and might be done by SPEED and CTA).

The price difference between goods outside and inside Mozambique once tariffs have been eliminated can be referred to as a "price gap" or "price wedge." Studies can be done using this price gap analysis to measure the impact of NTMs on the domestic price of a good in comparison to a reference price, say, for example, at the border in Komatiport in South Africa. The idea behind this method is that NTMs raise the domestic price above what it would be in their absence. The price gap is the difference between the price prevailing in the NTM-constrained market (the "internal price") and the price prevailing.

Recommendations for CTA on NTMs

In 2007, Imani studied NTMs in Mozambique and in 2011 Econex did a cost factor study for CTA's Annual Private Sector Conference. CTA should consider a new study on price gaps between goods in Mozambique and neighboring countries in order to pinpoint NTMs. Once gaps and NTMs are identified, CTA could develop an agenda to lobby for reduction or elimination of NTMs.

[18] World Trade Organization / UNCTAD, *A Practical Guide to Trade Policy Analysis*, 2012.

8. Reinvigorate Institutions and Processes

As an umbrella organization and national confederation, CTA has advanced the policy process on a variety of pro-market reforms, ranging from trade to tax policy and "Doing Business" problems. CTA needs to continually engage business associations in the policy process to achieve and sustain reforms that support private sector development. The business community is uniquely informed about barriers to trade and investment, technical options for overcoming these barriers, and the extent to which reforms are implemented. Individual businesses discuss issues with the government regularly, but only associations can aggregate information about problems facing sectors or regions. In doing so, they amplify the private-sector voice in policy dialogue and broaden the constituency for reform.

However, private sector input into the trade policy process, especially from CTA, has been waning in recent years. This may be due to an ever-expanding list of international trade issues and a general lack of understanding among members of concepts and issues (a few key individuals at CTA are well versed on international trade issues). Building capacity and interest among members to better understand these issues can advance trade policy reform.

To help Mozambique increase its international trade, the public and private sectors must address the many barriers to trade and investment in a comprehensive and collaborative manner. Public-private dialogue began in the late 1990s and continues in various forms today—the Annual Private Sector Conference organized by CTA, CTA sector working groups (*pelourous*), Enhanced Integrated Framework (EIF), and ad-hoc discussions with ministry and private sector counterparts. Dialogue on trade, however, seems to have taken a back seat to improving the business environment, specific policy issues, and the impending resource boom. While taking a backseat to these other issues is not necessarily bad, the issues are inherently tied to trade: bureaucracy and red tape reduce the competitiveness of Mozambique's exports and imports; difficulty in obtaining work permits jeopardizes large-scale investment projects; and high-internal costs due to a lack of competition (e.g., in the air transport sector), challenges the development aspirations of provinces such as Pemba.

Addressing these issues through public-private sector dialogue will enable domestic entrepreneurs and foreign investors to take advantage of opportunities to increase exports and create jobs on a broad base, which is essential for continued poverty reduction in Mozambique. Efforts to improve the business climate will also help domestic firms improve efficiency and compete more effectively against imports, which appears to already be happening as seen from the trade data:

imports surged when tariffs for SADC feel to zero in 2012, but appear to have actually declined in 2013.

To address the many issues discussed previously, it is important to re-invigorate CTA's *pelouros* on trade, develop a focused trade-related lobbying agenda for CTA, and strengthen Mozambique's trade institutions and processes to ensure attention is given to trade-related issues.

As noted in Mozambique's Integrated Framework (IF) Diagnostic Trade Integration Study (DTIS), Mozambique's trade institutions and processes have some weaknesses, most notably insufficient numbers of trained staff to evaluate trade policy options, inadequate trade data, and lack of a formal institutional mechanism for interministerial coordination of trade policy. And although the National Standards Institute (INNOQ) has enhanced its capacity, weaknesses in standards-setting and conformity remain.

Trade institutions in Mozambique have very limited human capacity, poor interministerial coordination, and weak organizational structure. Training in trade policy analysis is limited in the public and private sectors, which hampers effective participation in trade deliberations and negotiations. Most attention is focused on the impending resource boom, other economic policies and the business environment. New staff in ministries and private sector associations still do not understand the benefits and obligations of WTO, regional, and bilateral agreements, especially in areas important to Mozambique: agriculture, services, trade preferences, rules of origin, standards, and negotiations. Technical assistance is required to improve the management skills of the private sector so it can respond better to trade opportunities.

At present, the MIC forms interministerial coordinating committees as issues arise. It identifies members, invites them to serve on the committee, and convenes meetings. These committees usually cover one topic at a time. In addition, usually the same representative from a ministry, private sector organization, or nongovernmental organization (NGO) serves on each committee. The lack of a formal interministerial process that handles multiple issues simultaneously (e.g., SADC, EPA, the Integrated Framework) wastes resources and time. A formal system would ensure that the resources to coordinate policy are available and that all viewpoints are considered. The EIF was intended to solve this problem, but has not been able to effectively enable Mozambique to coordinate on trade issues. There was almost no talk of SADC, WTO or other issues during the consultant's two-weeks in country. Trade issues are an integral of almost any current subject and analysis of the issues with a trade lens or angle to gauge impacts on trade performance should be a normal undertaking, especially for CTA.

9. Developing a National Trade Strategy

The success of economic and business environment reforms will depend very much on high-level endorsement of trade as a part of Mozambique's development strategy and on instituting a mechanism for coordinating work among ministries. Intensive collaboration between the public and private sectors—a deepening of a process already underway in Mozambique—can help focus and accelerate implementation of policy and regulatory reform. In addition, the election of a new President in late 2014 presents an opportunity to affirm the importance of trade to economic growth and poverty reduction. Such affirmation would send a strong signal about policy direction to local and foreign investors.

Intergovernmental coordination of trade-related policies and programs could be facilitated through a formal mechanism. Many countries are creating or have instituted such mechanisms. They are usually chaired by one agency, with interagency committees and subcommittees covering specific issues or sectors. In Mozambique, an interministerial body reporting to the Council of Economic Ministers and consisting of representatives of economic ministries and chaired by the Minister of Industry and Trade, could well serve that function.

Mozambique already has a mechanism for public-private sector dialogue: the annual Private Sector Conference (CASP), sponsored by the Ministry of Industry and Trade and CTA. The annual conference should dedicate one session to trade and analyze trade-related aspects of other business environment obstacles. For each topic addressed at CASP, it would be productive to ask two basic questions: What is the impact of this policy on imports and exports? If such a policy were amended, would it increase/decrease imports and exports? Task forces could be created to deal with specific issues, such as tax policy, customs facilitation, and business registration. The task forces would follow through on recommendations offered at the annual conference.

Incorporating the national trade strategy into the Poverty Reduction Strategy Process (PARPA), which provides a mechanism for assessing progress on a regular basis, will provide for accountability in assessing results. More important, it will ensure that trade policy decisions are evaluated for their contribution to poverty reduction, rather than narrower interests or pressures. The last few PARPAs started to include some references to trade, but that seems to be waning in recent years. CTA should pay careful attention to references to trade in the next PARPA and ensure trade is an integral part of the PARPA.